

Message Text

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ACTION EA-12

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FM AMEMBASSY JAKARTA

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C O N F I D E N T I A L JAKARTA 4754

PASS AGRICULTURE AND AID

E.O. 11652: GDS

TAGS: EAID, EAGR, ID

SUBJECT: REQUEST FOR FY 1978 SUPPLEMENTAL APPROPRIATION FOR PL 480,
TITLE I - DEVELOPMENTAL IMPACT

REF: (A) STATE 091237, (B) JAKARTA 4423

1. MISSION SUPPORTS OBJECTIVE OF ATTEMPTING IDENTIFY NEW WAYS FOR INCREASING DEVELOPMENTAL IMPACT OF PL 480 PROGRAM IN INDONESIA. WE BELIEVE TITLE III INITIATIVE PRESENTS BEST OPPORTUNITY IN THIS REGARD AND AS EXPLAINED REF A WE ARE OPTIMISTIC THAT A SOUND TITLE III PROGRAM CAN BE DEVELOPED FY FY 80 BASED ON GOOD NEW PROJECT INITIATIVES, PROVIDED GOI WILLING GIVE UP CONTROL OVER LOCAL CURRENCY PROCEEDS AND MONITORING REQUIREMENTS CAN BE MET.

2. AT PRESENT TIME, WE BELIEVE THERE IS LITTLE LIKELIHOOD GOI WOULD CONCUR IN INITIATIVE REF A TO LINK PROPOSED FY 78 PL 480 TITLE I SUPPLEMENTAL WITH MACRO POLICY CHANGES FOR AGRICULTURAL SECTOR OR ADDITIONAL PROJECTS IN RURAL/AGRICULTURAL SECTOR. WE INDICATED IN REF B THAT NEITHER MISSION NOR IBRD ARE CURRENTLY IN POSITION TO RECOMMEND NEW POLICY INITIATIVES FOR RURAL/AGRICULTURAL DEVELOPMENT. MOREOVER, DO NOT THINK EFFORT EXERT LEVERAGE THROUGH PL 480 PROGRAM IN THIS MANNER WOULD BE SUCCESSFUL. MOST MEANINGFUL IMPACT ON MAJOR POLICY ISSUES WILL PROBABLY COME OVER TIME THROUGH
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NEW USAID AGRICULTURAL PLANNING AND DEVELOPMENT WITH PLANNING BUREAU OF DEPARTMENT OF AGRICULTURE. PROJECT AGREEMENT SIGNED APRIL 12 BY AMBASSADOR.

3. WASHINGTON AGENCIES UNDER FALSE IMPRESSION IF THEY BELIEVE GOI HAS LIST OF GOOD AGRICULTURAL PROJECTS QUOTE IN THE PIPELINE END QUOTE AND READY FOR FINANCING. SOUND PROJECTS TAKE

CONSIDERABLE TIME TO DEVELOP (SEVERAL YEARS IN MOST CASES). IN POINT OF FACT, GOI IS STILL IN VERY EARLY STAGES OF DEVELOPING OUTLINE FOR REPELITA III AND NO NEW PROJECT INITIATIVES HAVE BEEN IDENTIFIED AS PART OF THIS PLANNING EXERCISE. THOSE PRIORITY DEVELOPMENT PROJECTS WHICH ARE READY FOR FUNDING HAVE ALREADY BEEN INCLUDED IN THE FY 78/79 BUDGET.

4. IN ANALYZING GOI REQUEST FOR ADDITIONAL PL 480 TITLE I IN FY 78, WASHINGTON AGENCIES SHOULD BEAR IN MIND THAT TITLE I ALREADY MAKING SUBSTANTIAL DEVELOPMENT CONTRIBUTION IN INDONESIA:

A. COMMODITIES HELP ALLEVIATE SUFFERING ASSOCIATED WITH LARGE FOOD GRAIN DEFICITS. IN FY 78 PL 480 FOOD GRAINS (INCLUDING PROPOSED SUPPLEMENTAL) WOULD PROVIDE OVER THREE MILLION INDONESIANS WITH THEIR AVERAGE DAILY CONSUMPTION REQUIREMENTS.

B. PL 480 IMPORTS HELP GOI MAINTAIN STABLE RICE PRICES AND AVOID SOCIAL PROBLEMS RELATED TO SHORTAGES OF PRIMARY FOOD STAPLE.

C. CONCESSIONALITY OF PL 480 PROGRAM CONTRIBUTES TO MAINTENANCE OF REASONABLE DEBT SERVICE RATIO AND ALLOWS GOI MAINTAIN ADEQUATE FOREIGN EXCHANGE RESERVE LEVEL.

D. PROCEEDS FROM THE SALES OF PL 480 ARE USED FOR SELF-HELP PROJECTS IN AGRICULTURAL SECTOR, THUS CONTRIBUTING SIGNIFICANTLY TO FINANCING OF PRIORITY ACTIVITIES IN SUPPORT OF GREATER FOOD
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PRODUCTION.

5. AS PREVIOUSLY INDICATED, GOI HAS RESISTED LINKAGE OF TITLE I PROCEEDS WITH SPECIFIC PROJECTS BUT AGREED TO ATTRIBUTION OF LOCAL CURRENCY GENERATIONS WITH PROJECTS INCLUDED IN GOI BUDGET IN ORDER TO SATISFY NEW PL 480 LEGISLATION. REF A PROPOSAL, WHICH GOES ONE MAJOR STEP FURTHER BY INTERJECTING CONCEPT OF ADDITIONALITY VICE ATTRIBUTION, WILL CERTAINLY ENCOUNTER STRONG GOI RESISTANCE. WHICH COULD UNDERMINE THE STEP BY STP PROCESS OF DEVELOPING NEW TITLE III INITIATIVE. MISSION ALSO CONCERNED ABOUT MONITORING IMPLICATIONS OF A TITLE I PROGRAM JUSTIFIED ON BASIS OF QUOTE INCREMENTAL DEVELOPMENT EFFORT END QUOTE.

6. MISSION IS CONTINUING TO DEVELOP TITLE III PROGRAM PROPOSAL BUT AS INDICATED REF B, FY 80 IS EARLIEST THIS PROGRAM COULD BEGIN, IF GOI IS INTERESTED. TITLE I INITIATIVE REF A WILL PRE-EMPT THE DEVELOPMENT OF A TITLE III PROGRAM WHICH IN OUR VIEW OFFERS BEST OPPORTUNITY STRENGTHEN DEVELOPMENTAL IMPACT OF PL 480 PROGRAM. ACCORDINGLY, MISSION RECOMMENDS THAT PL 480 FY 78 SUPPLEMENTAL BE APPROVED BASED ON CONTRIBUTION TO INDONESIAN DEVELOPMENT DESCRIBED PARA 4 ABOVE AND REF B. MISSION WILL CONTINUE TO FOCUS ON TITLE III AS BEST WAY FOR SIGNIFICANTLY

INCREASING DEVELOPMENT IMPACT OF PL 480 PROGRAM.
MASTERS

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